STATE OF ILLINOIS ILLINOIS COMMERCE COMMISSION

Wisconsin Energy Corporation, Integrys)		
Energy Group, Inc., Peoples Energy, LLC,)		
The Peoples Gas Light and Coke Company,)		
North Shore Gas Company, ATC Management)		
Inc., and American Transmission Company LLC)		
)		
Application pursuant to Section 7-204 of)	Docket No. 14-0496	
the Public Utilities Act for authority to)		
engage in a Reorganization, to enter into an)		
agreement with affiliated interests pursuant)		
to Section 7-101, and for such other)		
approvals as may be required under the)		
Public Utilities Act to effectuate the)		
Reorganization.)		

DIRECT TESTIMONY OF SEBASTIAN COPPOLA ON BEHALF OF THE PEOPLE OF THE STATE OF ILLINOIS

AG Exhibit 2.0

November 20, 2014

PUBLIC VERSION

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INTRODUCTION

- 2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- 3 A. My name is Sebastian Coppola. My business address is 5928 Southgate Rd., Rochester,
- 4 Michigan 48306.

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- 5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
- 6 A. I am President of Corporate Analytics, Inc., a business consulting firm specializing in
- 7 financial and strategic business issues in the fields of energy and utility regulation.
- 8 Q. PLEASE SUMMARIZE YOUR PROFESSIONAL QUALIFICATIONS.
- 9 A. I have more than thirty years of experience in public utility and related energy work, both
- as a consultant and utility company executive. I have testified in several regulatory
- proceedings before various regulatory commissions. I have prepared and/or filed
- testimony in general rate case proceedings, revenue decoupling reconciliations, gas
- conservation programs, gas cost and power supply cost recovery mechanisms, and
- pipeline and meter infrastructure replacement cases. AG Exhibit 2.1 describes my
- regulated-energy qualifications in more detail.

16 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

- 17 A. Wisconsin Energy Corporation ("Wisconsin Energy"), Integrys Energy Group, Inc.
- 18 ("Integrys"), Peoples Energy, LLC ("PELLC"), The Peoples Gas Light and Coke Company
- 19 ("Peoples Gas" or "PGL"), North Shore Gas Company ("North Shore"), ATC Management
- Inc., and American Transmission Company LLC (collectively, the "Joint Applicants" or
- 21 "JA") are seeking approval from the Illinois Commerce Commission ("the Commission") to
- engage in certain transactions that will result in a reorganization of Peoples Gas and North

23		Shore (together, "the Gas Companies"). The proposed reorganization (or "Merger") entails
24		the acquisition of 100% of the outstanding common stock of Integrys by Wisconsin Energy
25		to create a new holding company – WEC Energy Group, Inc. ("WEC Energy Group") –
26		that will wholly own PELLC, with the Gas Companies continuing to exist and operate as
27		wholly-owned indirect subsidiaries of WEC Energy Group. I have been asked by the Office
28		of the Attorney General, on behalf of the People of the State of Illinois ("AG"), to perform
29		an independent analysis of the Joint Applicants' commitment to continue Peoples Gas's
30		Accelerated Main Replacement Program ("AMRP") after completion of the merger.
31	Q.	PLEASE EXPLAIN WHY A REVIEW OF WISCONSIN ENERGY'S
32		COMMITMENT TO THE AMRP IS A CRITICAL ISSUE FOR THE
33		COMMISSION TO CONSIDER IN APPROVING THE MERGER.
34	A.	The Joint Applicants have committed to a "business as usual" approach to the
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35		AMRP project. Specifically, JA witness Allen Leverett states:
36 37 38 39 40 41 42 43 44 45 46 47 48		Wisconsin Energy is committed to having Peoples Gas continue the AMRP assuming that the legislatively-authorized rider – Rider QIP – remains in effect pursuant to the terms of Section 9-220.3 of the [Public Utilities] Act to allow automatic recovery on AMRP investments up to a certain percentage cap of Peoples Gas' base rate revenues each year, as well as WEC Energy Group and Peoples Gas remaining financially capable of doing so. The financial capability of WEC Energy Group and Peoples Gas to continue the AMRP will depend on Peoples Gas being able to obtain timely changes in its base rates to allow the Rider QIP cap to be reset and the investments made added to Peoples Gas' rate base.
36 37 38 39 40 41 42 43 44 45 46 47		Wisconsin Energy is committed to having Peoples Gas continue the AMRP assuming that the legislatively-authorized rider – Rider QIP – remains in effect pursuant to the terms of Section 9-220.3 of the [Public Utilities] Act to allow automatic recovery on AMRP investments up to a certain percentage cap of Peoples Gas' base rate revenues each year, as well as WEC Energy Group and Peoples Gas remaining financially capable of doing so. The financial capability of WEC Energy Group and Peoples Gas to continue the AMRP will depend on Peoples Gas being able to obtain timely changes in its base rates to allow the Rider QIP cap to be reset and the investments made added to Peoples Gas' rate

witness Allen Leverett's testimony, range from [Begin Confidential]

[End Confidential] per year over the next five years.¹

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The AMRP, which is currently scheduled to be completed by the year 2030, will have a dramatic impact on customer rates over the next two decades. My analysis shows that it is likely that over the 20-year life of the program, the total cost of the AMRP will exceed \$4.6 billion if the Joint Applicants conduct business as usual in its management of the AMRP. My review of the data supplied by both Peoples Gas and the Joint Applicants reveals that PGL is encountering substantial difficulties implementing such a large capital program, installing new mains at a pace more than double from years prior to the approval of the AMRP in 2010. The result has been skyrocketing capital costs and dramatic increases in customer rates. The Commission has recognized the problems Peoples Gas has had in implementing the AMRP. In its June 18, 2013 order in Docket No. 12-0511/0512 (cons.), the Commission expressed concern over the lack of a detailed work plan for the program, ordering a two-phase investigation of the AMRP under Section 8-102 of the Public Utilities Act (the "Act") (220

ILCS 5/8-102) be conducted.² The troubled and unresolved status of the

AMRP calls for a different approach than continuing business as usual

after the merger, as the Joint Applicants propose. As it reviews the

proposed merger, the Commission must consider whether the Joint

¹ Joint Applicant CONFIDENTIAL Exhibit 4.1, page 3.

² ICC Docket No. 12-0511/0512 (cons.), North Shore Gas Co., Peoples Gas Light & Coke Co., -- Proposed Increase in Rates, Order of June 18, 2013 at 61.

74		Applicants' plan to continue the AMRP plan as currently constituted is, in
75		fact, in the public interest.
76	Q.	WHAT IS YOUR UNDERSTANDING OF THE CRITERIA THAT THE
77		COMMISSION WILL EXAMINE IN ITS ASSESSMENT OF THE JOINT
78		APPLICANTS' MERGER AND ACQUISITION REQUEST?
79	A.	While I am not an attorney, I am advised by counsel that Section 7-204 of the Act
80		authorizes the Commission to approve proposed mergers if it can find that, among other
81		provisions:
82 83 84		(1) the proposed reorganization will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utility service;and
85 86		(7) the proposed reorganization is not likely to result in any adverse rate impacts on retail customers.
87		220 ILCS 5/7-204(b)(1),(7). Most importantly, the statute permits the Commission to
88		"impose such terms, conditions or requirements as, in its judgment, are necessary to
89		protect the interests of the public utility and its customers." 220 ILCS $5/7-204(f)$
90		(emphasis added). This provision is particularly important as the Commission analyzes in
91		its judgment what, if any, conditions on the proposed merger are needed to ensure that
92		the interests of the public utility and its customers are protected.
93	Q.	DO YOU HAVE EXPERIENCE WITH PIPELINE AND METER
94		INFRASTRUCTURE REPLACEMENT PROGRAMS?
95	A.	Yes. In the past two years, on behalf of the Michigan Department of the Attorney
96		General, I analyzed the cast iron and unprotected steel pipeline replacement

programs of the two largest gas utilities in Michigan serving all the major cities of the State, including the City of Detroit, and their proposals to accelerate their programs. This review included the acceleration of relocating inside meters to the outside of customers' homes. The issues addressed in the Michigan gas utilities' infrastructure replacement programs related to ensuring the safety and reliability of the utility networks, as well as the proposed plans' impact on customer rates, are very similar to the issue in this docket of whether the Joint Applicants' commitment to continue the existing Peoples Gas AMRP is in the public interest.

Q. IS YOUR TESTIMONY ON THESE TOPICS ACCOMPANIED BY

ADDITIONAL EXHIBITS?

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107 A. Yes. I am sponsoring AG Exhibits 2.1 through 2.7.

108 Q. WHAT INFORMATION HAVE YOU RELIED UPON IN FORMULATING 109 YOUR RECOMMENDATIONS?

110 A. I reviewed the Commission's orders in the Gas Companies' 2009 and 2012 rate cases; 111 Peoples Gas's and other parties' testimony in ICC Docket No. 09-0167 (Peoples Gas's 112 2009 rate case), the case in which the Commission approved a rider permitting the 113 assessment of customer surcharges for a return of and on Peoples Gas AMRP investment 114 and the existing 2030 AMRP completion date; Peoples Gas, Staff, and Intervenors' 115 testimony related to PGL's AMRP investment in its pending rate case, ICC Docket No. 116 14-0224/0225 (cons.); Peoples Gas's responses to Staff and Intervenors' data requests in 117 that docket; as well as the testimony, exhibits and data request responses of the Joint 118 Applicants in this proceeding.

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND

RECOMMENDATIONS.

- **A.** My conclusions and recommendations are as follows:
 - 1. The Joint Applicants state in their pre-filed testimony that they are committed to continuing the current AMRP, assuming timely recovery of the program's costs in rates. Although Wisconsin Energy has acknowledged the ongoing outside audit ordered by the Commission, the commitment to resolving any issues associated with its infrastructure replacement plan, from the Joint Applicants' perspective, seems to be limited to better coordination with the City of Chicago. While that is an essential goal, that alone is not a sufficient basis for approving the merger.
 - 2. The Joint Applicants responses to discovery in this docket reveal that Wisconsin Energy, the acquiring company, has not performed the in-depth due diligence needed to assess the Peoples Gas AMRP, and as such may not be fully aware of the significant escalation in construction costs and delays in the execution of the program.
 - 3. Peoples Gas is currently projecting that the construction costs for the AMRP will exceed \$4.6 billion. This revised projection is more than double the \$2.2 billion the company forecasted in 2009 when it received approval from the Commission to proceed with implementation of the program and to assess customer surcharges associated with the AMRP through a rider. Since 2011 and during the first four

years of the program, the AMRP has experienced cost overruns, delays in completion of projects and difficulties in coordinating activities with the City of Chicago.

- 4. Many of the anticipated benefits promised in Peoples Gas's testimony submitted in Docket 09-0166/0167 (cons.), such as reduction of gas leaks and savings in operations and maintenance expenses for gas mains and service lines, have not materialized. The data show that since the start of the AMRP, rather than decrease, reported gas leaks have instead increased 11% per year on average. The data provided by the Joint Applicants for 2011 to 2015 shows that total O&M expense for mains and services *increased* from \$47.8 million in 2011 to \$59.7 million in 2012 -- a 25% increase over a one-year time period. Similarly, in 2013 total O&M expense for mains and services increased to \$74.9 million, an additional increase of 25% over and above the 2011-2012 level.
- 5. Peoples Gas has not provided sufficient information to determine whether the high priority, high risk segments of cast iron/ductile iron mains and service lines are being replaced ahead of other segments. This lack of transparency is troubling given the Joint Applicants' commitment to continue the existing AMRP.
- 6. The revised cost of the program is estimated to cost ratepayers \$10.9 billion over the life of the program and the depreciable life of the capital investments. Of this amount, residential customers will likely fund \$7.0 billion. As a result, base rates for a typical residential heating customer will double in 10 years from \$555 annually to more than \$1,100 per year by 2024. This new information, discussed

further below and in AG Ex. 1.4, suggests that if the Joint Applicants are permitted to continue the existing AMRP, approval of the merger will result in adverse rate impacts on customers.

- 7. I have conducted an economic analysis that explores the cost differentials for the AMRP given certain assumptions which would ensure that the most vulnerable mains are prioritized and replaced, potentially mitigate some of the current program cost overruns and implementation problems engendered by a business-as-usual approach to the AMRP, and significantly reduce the AMRP's impact on customer rates.
- 8. The Commission should reject the proposed merger unless and until the Joint Applicants commit to improving the current operation of the AMRP, reassessing the scale and timeline of the program and implementing the findings of a Commission-ordered outside audit now being conducted. Any approval of the merger should be conditioned as follows:
 - a. Wisconsin Energy shall perform a thorough evaluation of the AMRP and scale the program to a level of cast iron/ductile iron replacement and related infrastructure upgrades that is manageable, targets high priority, high risk segments first, is cost-effective, and minimizes the impact on customer rates.
 - b. Peoples Gas shall commit to a transparent process of providing annual reports to the Commission reconciling its actual vs. forecasted AMRP investments,

and provide an accounting of financial and non-financial benefits realized from the AMRP to date.

- c. Peoples Gas shall present to the Commission an annual, detailed, work plan for the remainder of the AMRP program that shows (1) the planned infrastructure replacement segments for the upcoming 12-month period and their related cost; (2) the Main Ranking Index ("MRI") of each planned targeted segment; (3) a list of the mains and other infrastructure that are still in need of replacement, along with their respective MRI ranking and projected cost to complete; (4) the total projected annual cost to complete the program and quantity of mains, services, meters and other infrastructure to be replaced and installed; (5) an explanation and detailed corrective action/implementation plan for improved coordination with the City of Chicago permit and public works activities; and (6) a detailed corrective action plan and status report for implementation of the approved final recommendations from the pending outside audit.
- d. Any approval of the merger also should be conditioned on a requirement that Peoples Gas credit customers for all construction fines and penalties paid to the City of Chicago from the beginning of 2011 to date, plus any fines and penalties incurred through the close of the merger, and that were recovered in base rates, or infrastructure riders. The credits could be flowed through PGL's Rider QIP during a single month or alternatively contributed by PGL to the "Share the Warmth" fund. Going forward, Joint Applicants' shareholders

should bear the costs of any such City of Chicago fines and penalties
associated with AMRP and other construction activity.

The remainder of my testimony provides further details and support for these summary conclusions and recommendations.

HISTORY OF THE AMRP

Q. PLEASE BRIEFLY DESCRIBE THE HISTORY AND CURRENT STATE OF THE AMRP BEING IMPLEMENTED BY PEOPLES GAS.

According to the direct testimony presented in ICC Docket No. 14-0225, Peoples Gas' pending rate case, of David Lazzaro, General Manager of District Field Operations for Peoples Gas, PGL decided in 1981 to replace 3,450 miles of cast iron and ductile iron mains out of the total of 4,031 miles of main in the PGL distribution system. A study performed by Zinder Engineering, a well-respected utility pipeline engineering firm with extensive experience in the areas of cast iron replacement programs and pipeline corrosion, proposed a 50-year replacement program to be completed by 2030. According to Mr. Lazzaro, later updates to the Zinder study concluded that it would be reasonable and prudent to complete the cast iron/ductile iron main replacement program by 2050, in effect extending the replacement program from 50 to 70 years. Under this program, Peoples Gas replaced 1,580 miles or nearly 50% of its cast iron/ductile iron mains by 2009. The replacement rate from 1981 to 2009 averaged 55 miles per year.³

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³ See ICC Docket No. 14-0224/0225 (cons.), PGL Ex. 8.0 at 9-10.

In Docket No. 09-0167, Peoples Gas filed the testimony of Salvatore Marano, a consulting engineer, who proposed Commission adoption of an infrastructure rider so that recovery of costs of an accelerated replacement program for the remaining miles of cast iron/ductile iron pipelines and related service lines to customers' facilities, replacement of low pressure pipelines, and relocation of inside gas meters to the outside of the customers' premises could occur between rate cases. Mr. Marano's proposed "plan" for implementation was no more than an outline of what items should be considered and how a detailed work plan the AMRP should be developed. It was not a detailed implementation work plan with identified pipeline or infrastructure segments to be replaced and installed with the associated cost and completion dates among other key necessary details. Unfortunately, this limited document, along with Mr. Marano's testimony, served as the basis for the Commission's establishment of the accelerated program and the current 2030 program completion date.

- Q. PLEASE ELABORATE ON THE MAIN REPLACEMENT PROGRAM
 AND RELATED INFRASTRUCTURE UPGRADE PROGRAM PROPOSED
 BY MR. MARANO THAT WAS THE BASIS FOR THE EXISTING AMRP
 PROGRAM AND TIMELINE.
- 240 A. The AMRP, as proposed by Mr. Marano, had four main goals:⁶
 - Retire 1,800 miles of remaining cast iron/ductile iron mains;
- Replace or upgrade approximately 300,000 service lines;

⁴ See ICC Docket No. 09-0166/0167, PGL Ex. SDM-1.0 at 2.

⁵ See ICC Docket No. 09-0166/0167, PGL Ex. SDM-3.1 Rev.

⁶ ICC Docket 09-0167, PGL Ex. SDM-1.0 beginning at 809 and SDM-1.15.

- Replace 355 miles of low pressure mains; and
- Relocate all inside gas meters to the outside in conjunction with the service line renewals.

Mr. Marano presented three possible end dates for program completion, ranging from 2025 to 2035. Mr. Marano recommended a 2030 program end date. The program proposed the retirement of 114 miles of cast iron/ductile iron and low pressure mains per year over 19 years, and the installation of 164 miles of new coated steel and plastic pipe to replace the old mains⁷. According to Mr. Marano, more miles of new main will need to be installed per mile of old pipe replaced to allow for double decking of mains. He testified that double decking is necessary for safer installation/replacement of mains and services and to potentially create long-term operation and maintenance efficiencies.⁸

Therefore, according to his assumption, for every mile of pipe retired, 1.44 miles of new pipe would be installed. Mr. Marano estimated that the AMRP would be completed at a construction cost of approximately \$2.2 billion, or approximately \$158 million less than the previous program undertaken by Peoples Gas, and would create \$248 million of operating and maintenance (O&M) cost savings over the life of the main replacement program.

Q. DID MR. MARANO IDENTIFY OTHER BENEFITS THAT WOULD RESULT FROM THE AMRP?

262 A. Yes. The major benefits mentioned by Mr. Marano were system safety and reliability.

263 He also mentioned that the upgraded infrastructure and accelerated replacement would

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⁷ ICC Docket No. 09-0167, PGL Exhibit SDM-1.15.

⁸ ICC Docket 09-0167, PGL Ex. SDM-1.0 at 67.

⁹ ICC Docket 09-0167, PGL Exhibit SDM-1.18.

264		reduce gas leaks, allow customers to use more modern appliances, and create other
265		operating efficiencies and benefits for Peoples Gas and its customers. 10
266	Q.	DID MR. MARANO QUANTIFY THESE OTHER BENEFITS OR SET
267		ANY BENCHMARKS TO MEASURE WHAT IMPROVEMENTS THE
268		AMRP WOULD ACHIEVE OVER TIME?
269	A.	No. Mr. Marano offered no detailed work plan and offered no benchmarks related to
270		safety, reliability and cost-effectiveness, such as reducing gas leaks or other relevant
271		criteria.
272	Q.	DID THE COMMISSION APPROVE PEOPLES GAS' AMRP PROPOSAL?
273	A.	Yes. In its order in Docket 09-0166/0167 (cons.), the Commission approved both the
274		Peoples AMRP proposal and an infrastructure replacement rider that provided PGL a
275		return of and on AMRP investment over and above a designated level of spending
276		between general rate cases. Although this rider was repealed by the Illinois Appellate
277		Court in 2011, the 2013 addition of Section 9-220.3 of the Act and a subsequent
278		Commission order put in place Rider QIP, which Peoples Gas is currently utilizing to
279		recover incremental AMRP costs that are not reflected in its base rates.
280	Q.	PLEASE DESCRIBE WHEN PEOPLES GAS BEGAN IMPLEMENTING
281		THE AMRP AND ITS PROGRESS TO DATE.
282	A.	Peoples Gas began implementation of the AMRP in 2011. During 2011, PGL installed
283		approximately 103 miles of new main and related infrastructure at a construction cost of

 10 ICC Docket 09-0167, PGL Ex. SDM-1.0 beginning at line 679.

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\$90.7 million.¹¹ The number of miles of new pipe installed increased to 136 miles in 2012, with construction costs under the AMRP increasing to \$228.5 million¹². New pipe installation fell to 98 miles in 2013 and program construction costs declined to \$192.1 million.¹³ During this 3-year period a total of 198 miles of antiquated cast iron/ductile pipe was retired or abandoned, 31,586 service lines were replaced, and 41,062 meters relocated.¹⁴

For 2014, the Company initially projected a capital budget for AMRP of \$228 million to install 148 miles of new main, retire 112 miles of old main, and complete other aspects of the program. ¹⁵ In its rebuttal testimony in Docket No. 14-0225, Peoples Gas increased the AMRP capital budget to \$272 million ¹⁶ and slightly increased the number of miles to be installed to 153 miles. ¹⁷ In sum, for the four year period between 2011 and 2014, Peoples Gas projects it will have spent \$783.3 million to install 490 miles of new main and related infrastructure under the AMRP, and retire/abandon 310 miles of cast iron/ductile iron and low pressure pipe. Using the ratio of dollars spent to miles of new main installed reveals that for the four-year 2011-2014 period, costs were approximately \$1.6 million per mile of new main installed.

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¹¹ Joint Applicants' response to ENG 1.01.

¹² *Id*, Joint Applicants response to AG 4.16.

¹³ *Id*.

¹⁴ Joint Applicants' response to data request ENG 1.25, Attachment 01.

¹⁵ ICC Docket No. 14-0225, PGL Ex. 8.0 (Lazzaro direct) at 14.

¹⁶ JA response to data request ENG 1.02.

¹⁷ ICC Docket No. 14-0225, PGL response to data request ENG 7.01, Attachment 01.

300	Q.	HOW DOES THIS BASIC BENCHMARK COMPARE TO THE COST PER
301		MILE PROJECTED BY MR. MARANO IN DOCKET 09-0167?
302	A.	Mr. Marano had projected a total construction cost of \$2,238,283,161 over the 19-year
303		life of the AMRP. 18 This calculates to an average annual construction cost of
304		\$117,804,377 to install 164 miles of new main and related infrastructure each year ¹⁹ or a
305		cost of \$718,319 per mile. Thus, the \$1.6 million cost per mile experienced in the first
306		four years of the program is more than double the cost projected in 2009.
307	Q.	IS THE COST PER MILE OF NEW MAIN INSTALLED A REASONABLE
308		BENCHMARK FOR ASSESSING THE COST OF THE ENTIRE
309		PROJECT?
310	A.	Yes. The number of miles of new main installed drives all other aspects of the AMRP.
311		Service pipe replacement is done in conjunction with main replacement while work is
312		being done near the customers' premises. The same is true for inside meter relocations.
313		Neither the difference in the total number of meters originally projected to be relocated
314		versus the number actually relocated, nor the number of service lines projected to be
315		replaced versus those actually replaced, should affect the average cost per mile in any
316		material way. While there may be some variance in the numbers of meter relocations and
317		service line replacements from neighborhood to neighborhood, in the aggregate and over
318		the multiple years of the AMRP, those differences average out.
319		Therefore, using a cost per mile of new main installed with all the accompanying
320		infrastructure upgrades included is a reasonable benchmark to gauge how effectively

¹⁸ ICC Docket No. 09-0167, PGL Ex. SDM-1.18 Ibid, PGL Ex. SDM-1.15

Peoples Gas is performing or not performing in managing construction costs, versus its initial projections.

Q. ARE THERE INDICATIONS WHY PEOPLES GAS IS EXPERIENCING SUCH A LARGE COST OVERRUN FROM WHAT WAS ORIGINALLY PROJECTED?

Yes. In response to discovery in this case, the Joint Applicants stated that in 2012, Peoples Gas experienced a 38% rate of change orders in contracts awarded to replace mains, services and related infrastructure work. A change order is usually issued when the scope, timeframe or other aspects of a project has changed, which will affect the cost of completing the project. This high rate of change orders is attributed to (1) additional site restoration being required by the City of Chicago Department of Transportation; (2) Line of Lay (pipeline route) issues; additional work associated with the cut-off of existing gas services; and (3) Peoples Gas' decision to replace all gas services by open trench instead of cross-boring by horizontal directional drilling until company standards could be modified to mitigate the risk of hitting still-active mains and services.²⁰

Coordination with the City of Chicago to obtain timely excavation permits also seems to have been a significant problem. This is likely the result of the volume of permit requests as the pace of main replacements increased since 2010, and perhaps insufficient pre-planning and coordination with the City of Chicago's Department of Transportation and other City agencies. Furthermore, Peoples Gas seems to lack a robust project management system. A mid-2012 review of its project management methods performed by Price Waterhouse Cooper identified several deficiencies and 23 areas

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²⁰ JA response to City of Chicago data request 4.10.

where improvements needed to be made. It appears that as of October 2014, two years later, none of these improvements have been completed. In response to discovery, Peoples Gas provided a target list of improvements with completion dates of March 31, 2015 for all items.²¹

Moreover, in an October 15, 2014 response to a data request²², the Joint Applicants stated that the execution of the AMRP has been impacted by internal and external issues affecting the organizational structure, program delivery strategy, and program management processes and procedures. Specific issues include the fact that Integrys and Peoples Gas have not formally defined a future state operating model or project delivery strategy in conjunction with the Rider QIP, or developed associated processes and controls. Furthermore, initiatives by the City of Chicago to increase water and sewer infrastructure replacement programs, as well as modifications to rules for restoration of right of way and public areas have also had a negative impact on AMRP costs. A copy of the Joint Applicants' response to this data request is attached as AG Exhibit. 2.2.

In its June 18, 2013 Order in Peoples Gas's last rate case, the Commission identified some of these same problems, as well as others, and ordered the ICC Staff to engage an industry expert to perform an independent audit of the AMRP. The audit is on-going and no report has been issued as of the date of my testimony. It is my understanding that an Interim Report from the auditor will be issued in January 2015, around the time of filing of Staff and Intervenors' Rebuttal testimony in this docket. I

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²¹ JA response to Staff data request ENG 2.08.

²² JA response to data request AG 4.20.

reserve the right to comment on that report in either Supplemental Direct or Rebuttal 363 364 testimony.

365 CAN YOU ELABORATE ON OTHER EVIDENCE OF INEFFICIENCIES AND Q. COST OVERRUNS ASSOCIATED WITH PGL'S INTERACTION WITH THE 366 367 CITY OF CHICAGO AS PART OF THE AMRP?

Yes. My review of discovery responses in the pending Peoples Gas rate case reveals that A. the Company has incurred significant fines and penalties associated with its construction activities. The Company reported, for example, that it incurred 636 fines and paid \$339,280 in fines and penalties connected to AMRP activity during the period of 2012 to June 2014 period.²³ Peoples Gas stated it did not separately track construction fines and 373 penalties associated with the AMRP during 2011. Extrapolating the available data, it appears that the Company averaged annual fines and penalties of about \$136,000 per year over the 2011-2014 time period. Therefore, I estimate that the Company has incurred to date nearly \$500,000 of fines and penalties from the City of Chicago pertaining to the AMRP. Most of these fines are for violations of work permit terms, not having a permit or a valid permit for the work location and for poor site restoration work.²⁴ In addition, 378 the Company revealed that from January of 2011 through June of 2014, it incurred \$951,850 in construction fines and penalties from the City.²⁵ This response does not indicate what portion of this amount is specifically tied to the AMRP.

²³ Docket No. 14-0225, PGL response to City of Chicago data requests City 1.25 attachment 1.

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²⁵ Docket No. 14-0225, PGL response to City of Chicago data requests City 2.05 attachment 1.

In my view, any approval of the merger should be conditioned on a requirement that Peoples Gas credit customers for all construction fines and penalties paid from the beginning of 2011 to date to the City of Chicago, plus any fines and penalties incurred through the close of the merger, and recovered in base rates or infrastructure riders. The credits could be flowed through PGL's Rider QIP during a single month or alternatively contributed by PGL to its "Share the Warmth" fund. Going forward, Joint Applicants' shareholders should bear the costs of any such City of Chicago fines and penalties associated with AMRP and other construction activity.

Q. HAS PEOPLES GAS PROVIDED AN UPDATED PROJECTION OF CONSTRUCTION COSTS FOR THE REMAINING YEARS OF THE AMRP?

Yes. In response to discovery, the Joint Applicants provided capital expenditure projections for the years 2015 to 2030, the current expected completion date of the project. The projected capital expenditures for this time period are \$3.8 billion. When combined with the \$783.3 million spent between 2011 and 2013 and forecasted for 2014, the Joint Applicants now project that the total construction cost over the life of the program will be approximately \$4.6 billion.

Keep in mind, Peoples Gas projected a total construction cost of \$2.2 billion when receiving approval for the AMRP in the 2009 rate case. The recent projections show a program whose cost has doubled within four years from its start. In providing the revised projections, the Joint Applicants stated that because the cost estimate was last updated in May 2013, it does not reflect the cost of complying with additional regulations enacted

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²⁶ JA Ex. 4.1 CONFIDENTIAL, page 3 and JA response to AG data request 4.05 Attachment 01.

by the City of Chicago in 2013, which took effect in January 2014. The company further added that the projections could change further due to unforeseen circumstances, new regulations and various contingent events.²⁷ In other words, if the past is any guide, it is almost certain that the final cost of the AMRP will be much higher than the current \$4.6 billion estimate.

408 Q. WHAT IS YOUR PRELIMINARY ASSESSMENT OF THE AMRP AND 409 PEOPLES GAS' IMPLEMENTATION OF THE PROGRAM?

A. The scale of the AMRP seems to have overwhelmed the utility's resources. It has not proved itself capable of managing an accelerated main replacement program that is more than double in scope from what PGL was managing historically. The demands on the City of Chicago to respond to the increased activity of the AMRP also have taxed the resources of the City. The result has been huge cost overruns, delays in completing projects, and, in my view, a state of mass confusion and uncertainty as to whether or not the critical objectives of increasing safety, system reliability, operating cost reductions, and financial benefits to customers have actually been, or are likely to be accomplished.

Q. HAVE YOU ANALYZED SOME OF THE INDICATORS THAT WOULD LEAD YOU TO CONCLUDE WHETHER SOME OF THE CRITICAL OBJECTIVES ARE LIKELY TO BE ACCOMPLISHED?

422 A. Yes. I reviewed the trend in gas leaks subsequent to the start of the AMRP. I also
423 analyzed the trend in O&M costs for mains and services and analyzed the projected costs

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²⁷ JA response to data request AG 4.05 a.

savings projected by the company in 2009. Further, I analyzed the overall impact that the AMRP will have on customer gas bills over the coming years. I address each of these items below in turn.

AMRP PERFORMANCE

Q. PLEASE DISCUSS YOUR FINDINGS WITH REGARD TO THE TREND OF GAS LEAKS.

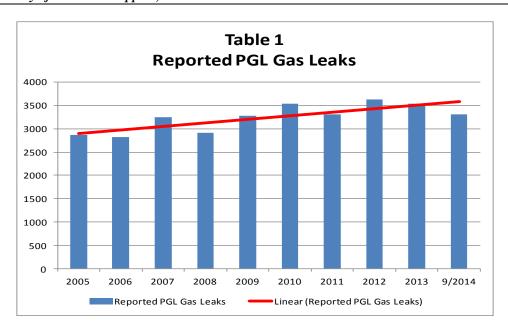
One of the factors that Mr. Marano highlighted in his testimony in 2009 was the number of gas leaks that Peoples Gas was experiencing because of the antiquated state of its cast iron/ductile iron mains and service lines. His prognosis was that as leaky mains and service lines were replaced, the number of gas leaks would decline, thus increasing customer safety and reducing methane emissions into the atmosphere.²⁸

In discovery, I requested that Joint Applicants provide the number of gas leaks reported to Peoples Gas from 2005 to September 2014.²⁹ The statistics show that from 2005 to 2009 the number of gas leaks reported averaged 3,022 per year. In comparison, the average number of gas leaks reported from 2011 to 2014 has been 3,447. The data show that since the start of the AMRP, rather than decrease, reported gas leaks have increased 11% per year on average. The following chart in Table 1 shows the annual trend:

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²⁸ ICC Docket No. 09-0167, PGL Ex. SDM-1.0 at 503, 656 and 769.

²⁹ JA response to AG data request 4.05, Attachment 6.



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Although the number of gas leaks repaired for both gas mains and service lines has declined in the past four years, it is not clear if Peoples Gas has decided to delay repairing some of these leaks in anticipation of replacing the affected mains and service lines or if it is not dedicating sufficient resources to address the less critical leaks, and merely increasing its backlog of un-repaired leaks.

In any case, what is obvious is that the number of reported gas leaks is going up,

not down, since the AMRP was first proposed and approved. This trend runs counter to

one of the key objectives of the AMRP – increasing the safety and reliability of the

Peoples Gas distribution network. As it analyzes the testimony of the Joint Applicants,

the Commission should be concerned that the Joint Applicants propose a continuation of

the existing AMRP, and make no reference to any commitment to improve the

Company's gas leak rate.

455 Q. HAS PEOPLES GAS PRESENTED EVIDENCE THAT THE MOST CRITICAL, HIGH RISK SEGMENTS OF ITS MILES OF CAST IRON AND DUCTILE IRON 456 457 MAINS ARE BEING REPLACED? 458 No, it has not. In his direct testimony in the PGL 2014 rate case, Docket No. 14-0225, A. 459 Mr. Lazzaro references the Company's MRI risk ranking system and the priority to replace segments with a rating of 5.0 and higher, but presents no evidence of what has 460 461 been replaced within this category of pipe versus other MRI categories, or what remains to be replaced as of a designated point in time.³⁰ In discovery in this Docket, the AG 462 issued several data requests to obtain this same information, but the Joint Applicants 463 refused to provide updated data. This lack of transparency raises uncertainty that the 464 AMRP process is appropriately prioritizing the most critical and high risk main segments, 465 thereby reducing potential catastrophic incidents. It also raises doubt that the current 466 467 AMRP process is ensuring, in fact and in practice, the overall safety of the Peoples Gas distribution pipeline system.³¹ 468 469 Q. PLEASE DISCUSS YOUR FINDINGS WITH REGARD TO THE TREND OF 470 O&M EXPENSES FOR MAIN AND SERVICES. 471 A. In his proposal for an accelerated main replacement program in Docket 09-0167, Mr.

Marano projected that Peoples Gas would begin to experience O&M cost savings
beginning in 2012, and that those savings would progressively increase in future years.

His projection assumed that newer mains would require fewer resources to operate and

³⁰ ICC Docket No. 14-0224/0225, PGL Ex. 8.0 at 9-17.

³¹ AG data requests to JA: AG 4.04, 4.05, AG 8.01, AG 9.01 and AG 9.02

maintain, and an accelerated program would realize these cost savings much sooner and at a higher rate.³²

In discovery in this case, I requested PGL's actual O&M expense for mains and services incurred for each year from 2011 to 2013 and the projected expense for 2014 to 2030. The data provided by the Joint Applicants for 2011 to 2015 shows that total O&M expense for mains and services increased from \$47.8 million in 2011 to \$59.7 million in 2012 -- a 25% increase over that one-year time period. Similarly, in 2013, total O&M expense for mains and services increased to \$74.9 million, an additional increase of 25% over and above the 2012 level. For 2014 and 2015, Peoples Gas projects an annual increase in O&M expenses for mains and services of 1.6% and 4.8%, respectively. The Joint Applicants did not provide any projections for the years 2016 to 2030 in response to the discovery request, nor did they elaborate on the causes of the significant increases in O&M expense since 2011. These facts highlight another key expectation of the AMRP – a reduction in O&M expense for mains and services -- not being realized.

AMRP IMPACT ON CUSTOMER BILLS

- Q. HAVE YOU CALCULATED THE IMPACT OF THE LATEST UPDATED

 CAPITAL AMRP COST PROJECTIONS AND O&M EXPENSES WILL BE

 ON CUSTOMER RATES?
- A. Yes. I have built a financial model that calculates the net revenue requirement needed by Peoples Gas to recover the cost of the AMRP and the related return on investment over the currently anticipated construction period and through its depreciable life. The model

³² *Id.* at 979; PGL Ex. SDM-1.18.

497	also calculates the revenue requirement by customer class and specifically the annual
498	impact on residential heating customers. As shown in AG Exhibit 2.3
499	(CONFIDENTIAL), the AMRP will result in a cumulative revenue requirement of \$10.9
500	billion to be collected in customer rates over the construction cycle and depreciable life
501	of the newly installed mains, which begins in 2011 and ends in 2049.
502	The inputs and calculations in the model include:
503	1. The updated and forecasted construction costs of the AMRP provided by the
504	Joint Applicants for the years 2011 to 2030;
505	2. Capitalized O&M costs;
506	3. Calculation of the annual depreciation expense;
507	4. Deferred taxes;
508	5. Incremental AMRP additions to rate base;
509	6. The return to be earned by PGL on rate base;
510	7. The projected O&M expense savings; and
511	8. The calculation of the net annual revenue requirement.
512	To be clear, this \$10.9 billion figure represents the <i>revenue requirement</i> (the amount that
513	would be collected in customer rates) from 2011 to 2049, which is the point at which all
514	of the plant additions for AMRP are fully depreciated. As AG Exhibit 2.3
515	(CONFIDENTIAL) shows, the \$10.9 billion revenue requirement is made up of the
516	return on the incremental rate base plus depreciation (return of invested capital) minus
517	O&M savings.

Q. WHAT KEY ASSUMPTIONS HAVE YOU MADE IN CALCULATING THE \$10.9 BILLION IN NET REVENUE REQUIREMENT?

I calculated this amount using several key pieces of data and calculations. The Joint Applicants supplied actual and forecasted construction dollars from 2011 to 2030, as described above. They also provided the amount of O&M costs that Peoples Gas plans to capitalize for 2014.³³ This capitalized amount of \$12.9 million divided by the number of miles Peoples Gas forecasts it will install in 2014, results in a capitalized O&M amount of \$84,300 per mile. I have used this amount multiplied by the number of miles of new main installed to arrive at the amount of capitalized O&M in other years. The sum of the annual construction costs plus the capitalized O&M costs add up to the annual additions to plant.

I have calculated the annual depreciation expense based on depreciation rates currently in effect and approved in Peoples Gas' last general rate case, Docket 12-0512. I used the depreciation rates supplied by the Company for plastic mains and services and weighted them proportionally, based on the amount of capital expenditures applicable to each, to arrive at a weighted depreciation rate of 3.53%. I applied this rate to the balance of plant additions at the end of the prior year. Also, I applied the 3.53% rate to half of the current year plant additions because plant additions occur throughout the year and, on average, only half of the cost is applicable to the annual depreciation rate.

I calculated the amount of deferred taxes based on the difference in tax versus book depreciation and PGL's effective tax rate. After determining the

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³³ JA response to data request ENG 3.03.

AMRP incremental rate base, I applied the pre-tax return of 9.95% approved in Docket 12-0512 in order to determine the return on investment which Peoples Gas will earn on the incremental rate base. I also assumed that Peoples Gas will achieve some savings in O&M costs after a few years into the implementation of AMRP.

As discussed earlier in my testimony, in my view, the trend in increasing O&M expense since 2012 will likely continue in the near future, absent corrective action on PGL's part. As such, I have assumed that the O&M cost savings projected by Mr. Marano in Docket 09-0167 will not begin to materialize in any significant way until 2020, at a point when the company has achieved a sufficient level of main replacements and changes in AMRP operations may be implemented. Therefore, O&M savings are included in the model beginning in 2020 and continue through 2049, the end of the depreciable life of the newly installed mains.

Q. HAVE YOU DETERMINED WHAT PERCENT OF THE \$10.9 BILLION IN INCREMENTAL REVENUE REQUIREMENT WILL LIKELY BE

ALLOCATED TO EACH CUSTOMER CLASS?

Yes. In AG Exhibit 2.4, I applied the percentages of Peoples Gas' currently-authorized revenue requirement by customer class to the net revenue requirement of \$10.9 billion.

These percentages were supplied by the Joint Applicants in response to discovery. The data show that 64.3% of the total revenue requirement or \$7.0 billion is allocated to residential customers with the remaining \$3.9 billion allocated to commercial and

³⁴ JA response to data request AG 4.08 attachment 01.

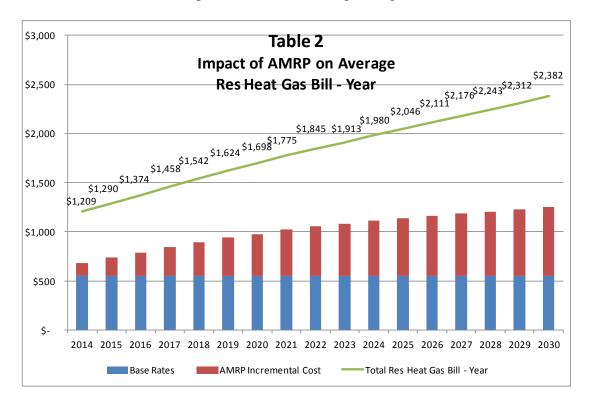
industrial customers. Of the \$7.0 billion, residential heating customers will absorb \$6.6 billion.

Column (h) in AG Exhibit 2.4 shows the annual amount that residential customers will likely see reflected on their gas bill as the AMRP gets fully implemented and then fully depreciated. Currently the additional amount on the bill may appear to be relatively manageable. However, it will continue to increase each year, and in 10 years will likely exceed \$550 per year, increasing further to a peak of nearly \$700 annually by 2032.

By comparison, the annual gas bill of a typical (average) residential customer currently includes about \$555 related to base rates. Therefore, within the next 10 years the AMRP will about double the portion of residential customers' gas bills related to base rates if the Joint Applicants are permitted to allow Peoples Gas to continues its current AMRP practices, and of installing infrastructure at the level of costs currently projected.

Table 2 below displays this dramatic increase in rates caused by the existing AMRP in the bottom half of the chart. The chart also shows a linear graph of what the total annual bill to a residential customer would likely be, if gas costs and current rate riders (excluding the QIP rider) are included. For purposes of my analysis, gas costs and current rate riders were escalated at an annual rate of 2% which could turn out to be very conservative given the low level at which gas prices stood in 2013. A 3.5% increase in base rates was also included in the total bill amount to take into consideration rate

increases related to other capital investments and operating cost increases.



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As the graph shows, the typical residential heating customer could likely see annual gas bills approaching \$2,000 within 10 years or less. Such a large increase in gas bills would place considerable strain on residential customers' household budgets. Again, the Joint Applicants commitment to essentially continue business as usual in the operation of the AMRP threatens to result in adverse rate impacts for retail customers.

ESSENTIAL CONDITIONS FOR MERGER APPROVAL TO ENSURE SAFETY, RELIABILITY AND AFFORDABILITY OF PEOPLES GAS DELIVERY SERVICE

Q. SHOULD THE COMMISSION APPROVE THE MERGER AS DISCUSSED IN THE JOINT APPLICANTS' PRE-FILED TESTIMONY?

A. No, it should not. Given the required findings for merger approval listed in Section 7-204 of the Act and the Joint Applicants commitment to essentially continue the AMRP as currently run by Peoples Gas, the Commission cannot reasonably conclude that permitting Wisconsin Energy to acquire Peoples Gas "will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utility service" and is "not likely to result in any adverse rate impacts on retail customers."³⁵

As discussed earlier in my testimony, Peoples Gas is failing to achieve the pace of main retirement and infrastructure upgrades under the current AMRP schedule, which targets completion by 2030. In fact, the utility's inability to achieve the target installation of 164 miles of new main per year called for in the current program means that it will need to install even more in coming years in order to complete the program by 2030. This is not likely to occur. The result would certainly be further cost overruns that will drive the final cost of AMRP even higher. Likewise, there is no evidence that the Joint Applicants have performed the due diligence necessary to understand the infrastructure investment rate involved in achieving that deadline, the impact on customer rates, and

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³⁵ 220 ILCS 5/7-204(b)(1), (7).

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whether the current AMRP is, in fact, prioritizing the most vulnerable main for replacement.

Before the AMRP was approved, Peoples Gas was comfortably replacing an average of 55 miles of cast iron/ductile iron per year. Now, under the existing AMRP, Peoples Gas has been trying to exceed 100 miles per year (more than twice the previous amount) and falling short. Moreover, the Joint Applicants have failed to show that the current AMRP in fact prioritizes the removal of vulnerable main within the Peoples Gas distribution system.

Q. HAVE YOU CALCULATED WHAT THE IMPACT OF ADJUSTING THE REPLACEMENT RATE OF THE AMRP WOULD BE ON CUSTOMER RATES?

Yes. In AG Exhibit 2.5, I have updated the financial model to extend the construction period to 2040 and made a few other modifications to the assumptions, which are detailed below. The outcome of this scenario is that the net revenue requirement drops to below \$10 billion from \$10.9 billion, potentially saving ratepayers nearly \$1.0 billion.

More importantly, the impact on customer gas bills is lessened as the capital investments and related costs are stretched over a longer time period. AG Exhibit 2.6 shows the allocation of the net revenue to the major customer classes and the annual cost to the average residential heating customer. Under this extended implementation scenario, the impact on customer bills in 10 years is only 60% of what it likely would be under the current AMRP.

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The rapid rise in customer rates under the current AMRP is tempered significantly with a revised approach to the operation of the AMRP program.

Q. WHAT ASSUMPTIONS DID YOU CHANGE IN THE FINANCIAL

MODEL FOR THE EXTENDED AMRP SCENARIO?

I assumed that PGL would install an average of 100 miles of new pipe from 2015 to 2040 and retire approximately 70 miles of cast/ductile iron and low-pressure pipe. This should allow Peoples Gas to replace the highest priority and high risk segments each year. This conclusion is supported by the fact that in response to discovery conducted in ICC Docket No. 12-0511/0512 (AG Cross Ex. 9 in that docket), PGL reported that the number of segments with an MRI rating of 3.0 and higher represented 3.2% of the total cast/ductile iron mains being replaced, and PGL had only 6 segments with a rating higher than 6. AG Exhibit 2.7 shows the summary page response to the two data requests.

With regard to construction costs, I assumed that going forward, Peoples Gas would be able to reduce the large increase in installation costs by more easily and efficiently managing a scaled down program. Better coordination with the City of Chicago and perhaps better compliance with new construction regulations recently issued by the City could be achieved under a scaled down main replacement program. A scaled down program should make it easier to obtain more timely construction permits from the City and achieve cost efficiency at both organizations. As such, for purposes of this analysis, I reduced the Joint Applicants' current projected capital expenditures of \$3.8 billion between 2015 and 2030 by 10%, and spread the lower capital costs from 2015 to 2040. Given that projected capital costs have doubled since 2009, the assumption of a

649 10% reduction from a more efficient management of a scaled down program is very 650 reasonable and conservative. 651 The only other change in assumptions is related to O&M cost savings beginning in 2020. Because of the revised, scaled-down approach to AMRP 652 653 operations in this scenario, I have reduced the savings down about 30% for the first 654 10 years and retained the same savings for the remainder of the time scenario 655 presented. 656 Q. IS PEOPLES GAS CURRENTLY FACING A CATASTROPHIC OR EMERGENCY SITUATION WITH ITS CAST/DUCTILE IRON MAINS THAT 657 658 REQUIRES AN ACCELERATED REPLACEMENT PROGRAM AS IT IS **CURRENTLY STRUCTURED?** 659 Not according to Peoples Gas. In his testimony in Docket 09-0166/167 (cons.), Mr. 660 A. 661 Marano stated that "In my opinion, within the constraints of not having an accelerated replacement program, PGL's operation and management of its distribution system 662 currently provides a level of safety that compares well to industry standards, including 663 other utilities with a large amount of CI/DI in their systems"³⁶ 664 ARE YOU PROPOSING THAT THE COMMISSION ORDER A NEW AMRP 665 Q. 666 COMPLETION DATE AS A CONDITION OF MERGER APPROVAL? No, I am not. What is clear from the information that I have reviewed and the actual 667 A. performance of Peoples Gas in implementing the AMRP, however, is that the Joint

³⁶ Docket 09-0167 Marano direct testimony at 455 (emphasis added).

Applicants have yet to describe how maintaining the current 2030 AMRP schedule will ensure the safety and reliability of the gas distribution network and the affordability of Peoples Gas' rates going forward, while complying with their obligation to provide least cost service. The economic analysis described above reveals the significant rate implications that result from a continuation of the AMRP, as currently run by Peoples Gas. The Joint Applicants have provided no reason why continuing the existing AMRP, or indeed the acquisition itself, is in the public interest.

RECOMMENDATIONS

- Q. HOW CAN THE COMMISSION ENSURE THAT THE MERGER WOULD NOT RESULT IN INCREASED RATE AND UNCERTAIN SAFETY AND RELIABILITY IN PEOPLES GAS UTILITY SERVICE?
- A. The Commission should reject the proposed merger unless and until the Joint Applicants commit to improving the current operation of the AMRP, reassessing the scale and timeline of the program and implementing the findings of a Commission-ordered outside audit now being conducted. Any approval of the merger should be conditioned as follows:
 - a. Wisconsin Energy shall perform a thorough evaluation of the AMRP and scale the program to a level of cast iron/ductile iron replacement and related infrastructure upgrades that is manageable, targets high priority, high risk segments first, cost- effective, and minimizes the impact on customer rates.
 - b. Peoples Gas shall commit to a transparent process of providing annual reports to the Commission, reconciling its actual vs. forecasted AMRP

investments, and provide an accounting of financial and non-financial benefits realized from the AMRP to date.

- c. Peoples Gas will present to the Commission an annual, detailed, work plan for the remainder of the AMRP program that shows: (1) the planned infrastructure replacement segments for the upcoming 12-month period and their related cost; (2) the MRI of each planned targeted segment; (3) a list of the mains and other infrastructure that are still in need of replacement, along with their respective MRI ranking and projected cost to complete; (4) the total projected annual cost to complete the program and quantity of mains, services, meters and other infrastructure to be replaced and installed.; (5) an explanation and detailed corrective action/implementation plan for improved coordination with the City of Chicago permit and public works activities; and (6) a detailed corrective action plan and status report for implementation of the approved final recommendations from the pending outside audit.
- d. Any approval of the merger also should be conditioned on a requirement that Peoples Gas credit customers for all construction fines and penalties paid from the beginning of 2011 to date to the City of Chicago, plus any fines and penalties incurred through the close of the merger, and that were recovered in base rates or infrastructure riders. The credits could be flowed through PGL's Rider QIP during a single month or alternatively contributed by PGL to its "Share the Warmth" fund. Going forward, Joint Applicants' shareholders should bear the costs of any such City of Chicago fines and penalties associated with AMRP and other construction activity.

These conditions will help to ensure both the safety and reliability of the Peoples Gas distribution network and that the impact of the AMRP on future customer rates will be minimized, ensuring least cost utility service.

718 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

- 719 A. Yes. However, I reserve the right to incorporate new information that may subsequently
- become available. I also reserve the right to supplement my testimony with the results of
- the Interim Report of the outside audit, scheduled for release in mid-January of 2015.